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RHEHNSC/NSC WASHDC PRIORITY
RHMFISS/HQ USAFRICOM STUTTGART GE PRIORITY

UNCLAS SECTION 01 OF 03 NDJAMENA 000398

SIPDIS
SENSITIVE

STATE FOR AF/C AND S/USSES
NSC FOR GAVIN
LONDON FOR POL - LORD
PARIS FOR POL - BAIN AND KANEDA
ADDIS ABABA ALSO FOR AU

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TAGS: [PGOV](#) [ECON](#) [EPET](#) [EFIN](#) [IMF](#) [PREL](#) [IBRD](#) [CBD](#) [EAID](#) [CD](#)
SUBJECT: IMF STILL "HOPEFUL" AS CHAD MISSES BUDGET TARGETS
AT START OF MID-TERM REVIEW

REF: A. NDJAMENA 338
[1](#)B. NDJAMENA 286
[1](#)C. NDJAMENA 282
[1](#)D. NDJAMENA 135

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SUMMARY

[1](#)1. (SBU) IMF Chad chief Christian Josz, in Chad conducting a review of the Fund's current Staff-Monitored Program, told Ambassador September 11 that the GOC had not met its mid-term program targets, citing extra-budgetary capital investment and spending, as well as excessive reliance on credit and lack of progress in the money-hemorrhaging and dysfunctional electricity and cotton sectors as major areas of concern. Josz said he was not surprised by Chad's performance, which he attributed to political circumstances, especially tension between two tendencies within the government on public revenue management: the Prime Minister and Finance Minister coming down on the side of responsible budget discipline in cooperation with the IFIs, on the one hand, and the Infrastructure Minister pushing) so far successfully) for more extra-budgetary capital investment and spending, which required recourse to credit, on the other. According to Josz, the GOC's performance under the remainder of the Staff-Monitored Program would determine the Fund's ability and willingness to engage in any successor program. He underlined that a successor program would also require significant commitments from the World Bank, in "macro-critical" sectors such as cotton and electricity, in which it had the lead. Josz seemed doggedly "hopeful" that he could get the GOC onto the track of budget reductions that the international community has long recommended.

[1](#)2. (SBU) The IMF's persistence and patience in continuing its engagement with Chad are impressive, and we wish Josz and his team well. And we agree with him that the GOC has indeed made some progress in public revenue management -) but sadly still not enough to put Chad on the road to stability and fully "normalized" relationships with the Fund and especially the Bank, without which Chad cannot hope to get debt relief. One reason that the GOC continues to spend beyond its means is the prospect of elections in 2010: President Deby is

likely to want to show that he is using Chad's oil revenues for public benefit, not as an exercise in Responsible Public Revenue Management 101. Another long-term threat to improvements in Chad's public finance management is its current campaign to increase charges for permits for foreign workers, a move that if applied to the Consortium, would cause it to scale back or end further investment in Chad's oil production, which would in the end reduce Chad's major source of revenue (Ref A). END SUMMARY.

13. (SBU) IMF Deputy Africa Division Chief Christian Josz and his team, in N'Djamena for a mid-term evaluation of the GOC's April-October 2009 IMF Staff-Monitored Program (SMP), briefed the Ambassador September 11. Josz said that the GOC, based on end-of-June budget figures, had not met its spending targets under the SMP. He added that the GOC agreed with this IMF assessment and that both sides would work together to address current problems during the two-week IMF visit.

RESPONSIBLE MANAGEMENT VS
INFRASTRUCTURE SPENDING

14. (SBU) Josz specifically expressed concern that, at mid-year, the GOC had already nearly exhausted its total extra-budgetary spending allowed for the entire year under the SMP. He said GOC spending was already at 150 million USD, whereas the end-of year target was or 200 million USD in the category of discretionary spending. Josz attributed half of this year's discretionary spending to military purchases in connection with countering the May rebel attacks, which he called, "understandable." Josz registered "disappointment"

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that the other half of extra-budgetary outlays thus far was for capital expenditures, which are expressly prohibited by the SMP. Spending by the Ministry of Infrastructure was on an upward, unsustainable trajectory, Josz said. He highlighted the tension he perceived between the Minister of Infrastructure, with his lack of respect for IMF goals, and the Prime Minister and Finance Minister, who had been championing strong relations with the IFIs and more responsible public finance management.

15. (SBU) Josz said that, by the end of June, the GOC had completely exhausted its 2008 surplus, had no more cash of its own, and had begun to borrow from its 400 million USD line of credit at the regional bank to finance government spending. Josz expressed worry over the current situation, as the 400 million USD amount had been intended to support the GOC through both 2009 and 2010.

UPBEAT ON 2010 BUDGET PREPARATIONS

16. (SBU) Josz said he was impressed with the GOC's 2010 budget preparations. He noted that a 2010 budget outline, with suggested spending instructions from the Prime Minister, had been sent to each ministry, and that this document closely matched the IMF's proposals for 2010 Chadian national spending. The main drawback in the document, Josz pointed out, was that spending authority for the Ministry of Infrastructure was not included. Josz said that he hoped to come back in December to assist the GOC in finalizing the 2010 budget, provided that relations with the IMF would remain positive enough to allow a return visit.

CONDITIONS FOR FURTHER IMF PROGRAMS

17. (SBU) Josz stated that for the GOC to qualify for a

successor program, it would have to rein in spending and meet end-of-program targets outlined in the SMP. Without meeting those goals, the GoC would have a difficult time convincing Fund leadership to support further programs for Chad. Josz emphasized that donor community support would be crucial to further IMF programs, which would involve "macro-critical reforms" in sectors like the money-hemorrhaging and dysfunctional electricity and cotton, where the Fund did not have competencies. Josz made clear that the World Bank would have to be a key partner, because of its expertise in these sectors. He added that Fund leadership was unlikely to want to continue support to Chad without increased engagement from the Bank. Josz noted that Mary Barton-Dock, World Bank representative for Chad based in Yaounde, would be visiting here in the coming weeks, but he indicated that he wondered about the Bank's overall commitment to Chad given the absence of a resident permanent Country Director.

MILITARY SPENDING
AND THE C-130JS

18. (SBU) Josz said that he understood that Chad's improved security situation meant that spending on military hardware might well be less in the future than over the past 18 months. Josz added that he had been told that Chad was well-armed and well-equipped except in the area of strategic air transport and asked about the possible sale of U.S. C-130Js to Chad. Ambassador described USG policy on assisting Chad in the area of strategic air transport, and he made clear that we were working with the GOC to find an appropriate and adequate alternative to the pricey and over-achieving (in the Chad context) C-130Js (Ref B).

COMMENT

19. (SBU) The IMF's persistence and patience in continuing

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110. (U) Minimize considered.
NIGRO